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RUEHBUT/AMEMBASSY BUENOS AIRES 5675  
RUEHCV/AMEMBASSY CARACAS 2901  
RUEHPE/AMEMBASSY LIMA 3101  
RUEHMD/AMEMBASSY MADRID 3637  
RUEHMN/AMEMBASSY MONTEVIDEO 4938  
RUEHQD/AMEMBASSY QUITO 5539  
RUEHSG/AMEMBASSY SANTIAGO 0140  
RUEHRI/AMCONSUL RIO DE JANEIRO 0957  
RUEHSO/AMCONSUL SAO PAULO 2148  
RHMFSS/HQ USSOUTHCOM MIAMI FL  
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C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 002873

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STATE FOR WHA/EPSC FAITH CORNEILLE

E.O. 12958: DECL: 03/07/2017  
TAGS: ECON PGOV AGR PREL EPET BL  
SUBJECT: WINE AND GAS IN TARIJA: ONE FLOWS FREELY

REF: A. LA PAZ 2791

¶B. LA PAZ 2777

Classified By: Acting Ecopol Chief Brian S. Quigley for reasons 1.4 (b) and (d).

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Summary  
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¶11. (SBU) The Department of Tarija forms the southern base of the so-called half moon, a grouping of departments resistant to the Movement Towards Socialism (MAS) agenda. It is home to both vineyards and almost all of the major Bolivian gas fields. As a result, Tarija may be the wealthiest of all Bolivian departments, but it also provides an excellent example of the economic and political strains caused by MAS policies and practices. While gas production remains stagnant and pipeline construction to the region stalled, local leaders worry about their future prosperity. On the political side of things, national government attempts to centralize resources has strengthened local sentiment for autonomy, but even in Tarija the MAS is adept at exploiting political divisions within the opposition. End Summary.

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Concerned Prosperity  
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¶12. (C) Tarija enjoys a per capita GDP rate almost four times the national average of US\$1,100. Additionally, both department and municipal governments have more resources than ever before (due to local tax collection, gas royalties, the Direct Hydrocarbon Tax (IDH), and even Venezuelan checks). This year the prefect initiated a program which provides free health care for all its citizens. In September Mayor Oscar Montes received a million dollar commitment from Venezuela to construct a new wing on the hospital (and a check for US\$468,543 to initiate the project). When asked about controls over the money, the mayor insisted that once he accepted the check, it entered the local budget and was

subject to government accountability.

¶3. (SBU) Tarija, like much of Bolivia, is enjoying the boom times of high consumer demand (ref A). This prosperity is illustrated by the high demand for labor. A day laborer in Tarija earns about double the national average of about US\$4 a day, and skilled craftsman are difficult to find, in part due to their immigration to Spain. The president of the local chamber of commerce Julio Kohlberg, who is also the general manager of one of the largest wineries in the country (Kohlberg), said that the demand for labor was not just a local phenomenon; he had lost workers to the mines, where wages have risen some four times higher than the national average. Moreover, a tradition of seasonal migration from the highland altiplano to the Tarija for harvest may be threatened. Overall, however, he admitted that domestic wine sales been never been so strong and, in fact, they had just signed a contract for export to the Washington D.C. area, home to an estimated 300,000 Bolivians.

¶4. (SBU) The dark cloud that hovers over the region is that productive investments are lacking. The economic advisor to the prefect estimated that 70% of investment over the past year was in construction. As in much of the economy, activity centers around consumption and construction of non-productive assets. Reasons for lack of private investment include: central government threats, lack of legal protection, and the pervading climate of uncertainty. This is most evident, and foreboding for Tarija, in the gas sector.

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Where's My Nationalized Gas?

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¶5. (C) As most Bolivian gas originates in Tarija, the department has been active in promoting its use. Currently however, industries running on gas are only operating at 70% of their capacity. According to the local chamber of commerce, this is costing the businesses US\$30,000 a day or nearly one million per month. Moreover, a new ceramics factory sits idle for lack of gas in the local market (Note: It is ironic that much of the gas imported to Brazil goes to ceramic factories which, in turn, are internationally competitive because the less expensive gas gives them a competitive edge over diesel fired plants. Moreover, in a recent victory for Petrobras the amount of gas put in the pipeline to Sao Paulo has increased from 30Mmcd to slightly over 31Mmcd. Bolivia argued that the maximum contractual obligation of 30Mmcd was what needed to be shipped; however, gas is burned at the pumping stations to power the product through the line and it appears that Brazil has successfully argued that 30Mmcd needs to be ultimately delivered not merely put in the system. According to Jorge Luiz Kauer, General Manager of Transierra (a pipeline operator), shipments to Argentina have now fallen below 1Mmcd, far below the minimum contractual obligation of 4.6Mmcd. End Note). Two new small diameter pipelines are scheduled to be completed well behind schedule in November, but even with this additional gas Tarija will only be able to meet current demand. It is not until a third, wider diameter pipeline is constructed that Tarija can contemplate boosting its gas consumption. Despite the prefect's optimism that this pipeline will be constructed next year, most industry experts have serious doubts.

¶6. (C) Investment plans for the sector over the coming year are generally limited to maintaining current production levels. Additionally, there certainly has been no further action on a US\$450 million gas separation plant for the department which was promised with much fanfare during the visit of Presidents Kirschner and Chavez in August. One Petrobras geologist did confide that the company would conduct new exploration (the first and only report of new

exploration by any major company), but only as a necessity to meet its own contractual obligations. Meanwhile, consumers in Tarija are likely to go without. In addition to industrial uses, the prefect has actively promoted the use of Vehicular Natural Gas (GNV) and much of the city fleet has been converted to GNV use. In this Tarija is not alone; nationwide the number of vehicles using GNV has risen from 4,364 in 1998 to over 63,000 in 2006. With no current excess supply, and little hope of short term production increases, growing demand will not be met nationwide. Despite its rhetoric that the domestic market comes first, the national government, via the national oil company (YPFB) may soon be deciding which regions get the GNV they demand and which don't: not a good scenario for Tarija.

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Politics: United Up Front, Bickering In Back  
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¶17. (C) Both the Prefect Dr. Mario Cossio and the Mayor Oscar Montes enjoy strong local popularity. Both are also set to vigorously defend their respective share of the Direct Hydrocarbon Tax (IDH), which is under threat from the national government (ref B). According to these respective leaders, the IDH represents around 50% of the municipal budget, while it accounts for only about 4% of the department budget. Opposition to the central government's plans does not come without a cost however. The state's representative in La Paz, Hugo Carvajal, said that all doors to the ministries were shut and the department's Secretary of Economic Development, Ernesto Farfan, said that they had been "placed in the refrigerator" by the Morales Administration.

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¶18. (C) Opposition is also likely to take a personal toll. Both the department's planning minister and secretary of economic development have been accused of corruption by Minister of the Presidency Quintana and both thought that such personal attacks were likely to continue. The prefect has approved the construction of an East/West highway across the state and even budgeted for their 30% share of the project, but there is no movement at the national level to come up with their proposed 70% share. (Note: Tarija also is likely to suffer from the poor construction and oversight of the North/South highway link to Potosi and the heartland of the country. Recently the contract with the Brazilian firm working on the project was canceled over accusations of shoddy construction. The project is likely to linger in legal limbo for the foreseeable future. End note).

¶19. (C) The united front against the central government masks intense personal dislike and rivalry between the mayor and prefect. This rivalry does not escape the MAS, who have proven adept at exploiting divisions among the opposition. Reynaldo Bayard, President of the Civic Committee, asserted that when the mayor and prefect are fighting, support for the MAS is likely to rise up to 10%. He further bemoaned the lack of an effective communication system to combat MAS rhetoric (which has an official radio network across the state). Finally, unofficially, contacts in both the Senate and local organizations admitted that they didn't trust Cossio and that he was trying to centralize too much local power. Publicly, however, they all felt it was more important to unite behind the banner of an autonomous Tarija than to criticize his governance.

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Comment  
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¶10. (C) Leaders in Tarija are content to allow Santa Cruz to play the lead role as the department of opposition. However, the economic and social situations in each department vary significantly, and Tarija should not be underestimated when it comes to defending its own interests.

End Comment.  
GOLDBERG